

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Mark Danaj

**SUBJECT: COUNCIL APPOINTEE SALARY  
ADJUSTMENTS**

**DATE:** 03-02-06

Approved

Date

3/03/06

## PREFERRED OPTIONS

Accept this report related to Council Appointee salary adjustments and direct staff as appropriate.

Additionally, as a result of the research that has been completed, there is a preferred option for Council's consideration. This is Option C that provides a combination of a base salary increase consistent with the salary range increase approved by Council in FY 05-06 for Senior and Executive Staff and merit pay (either one-time or added to base salary) consistent with Appointee performance ratings.

It is also suggested that Employee Services be directed to develop a merit based compensation plan that incorporates best practices, including salary ranges for each of the Appointees prior to the next performance appraisal period.

## BACKGROUND

On February 7, 2006, the City Council considered an agenda item related to Council Appointee salaries and directed staff to return to the City Council with the following:

- How the City has provided merit increases as a part of base salary for Council Appointees;
- Information on Appointee survey methodology, historical salary increases for all employee groups and indexing salary adjustments for Council Appointees; and,
- Best practices of administering executive compensation plans.

***Council Appointee Compensation Methodology and History – How the City has provided merit increases as a part of base salary for Council Appointees and information on survey methodology.***

In a December 19, 2000 memo to Council and an April 17, 2001 memo to the City Manager, the Mayor recommended a new compensation methodology for Council Appointees. The Mayor's recommended approach consisted of two components:

1. Use annual salary surveys as a means to set Appointee base salaries and ensure that those salaries are competitive with similar positions in other appropriate jurisdictions; and
2. Use a methodology that allows any one-time merit pay received by Council Appointees to be distributed in a way that counts towards retirement without becoming part of base pay.

The Mayor stated that the purpose of this methodology of compensation was to ensure that Council Appointee base salaries remain competitive and that Appointee performance evaluations would be used to establish merit increases based on performance. Performance evaluations were conducted and merit increases were granted to Council Appointees utilizing this methodology with an effective date of June 24, 2001.

Internal documents show that the survey instrument utilized for Council Appointees was changed in 2002. Some agencies that had been included in the 2001 survey were dropped because of their smaller size. In addition, incumbents were given the opportunity to suggest agencies that were comparable matches. The labor markets surveyed in 2002 were individually tailored to reflect the unique characteristics of each position. As a result, there was a different emphasis on local, statewide and national agency comparisons for the individual positions.

***Council Appointee Increases and Decreases by Fiscal Year***

Fiscal Year 02–03: Base and/or merit increases were provided to Council Appointees based on performance and survey information. Council Appointees whose base salary was found to be below the median market average of the

surveyed jurisdictions were adjusted to that average; any Appointee whose salary was at or above the median did not receive a base salary adjustment. In addition to any market rate salary adjustments, one-year merit pay in various amounts was provided to each of the Appointees.

Fiscal Year 03-04: No additional base or merit increases were granted; but, the one-time merit pay received in the previous fiscal year was made permanent. Additionally, the Mayor indicated in his report to the City Council that, if salary adjustments had been recommended, the average Council Appointee salary adjustment would have been about 7%. In January 2004, the merit pay previously converted to base pay was eliminated and base salaries were reduced to the Fiscal Year 01-02 level. The City Attorney and the City Auditor each lost merit pay that had been converted to base pay equivalent to 5.66% of their salary. The Redevelopment Manager lost merit pay that had been converted to base pay equivalent to 3.84% of salary.

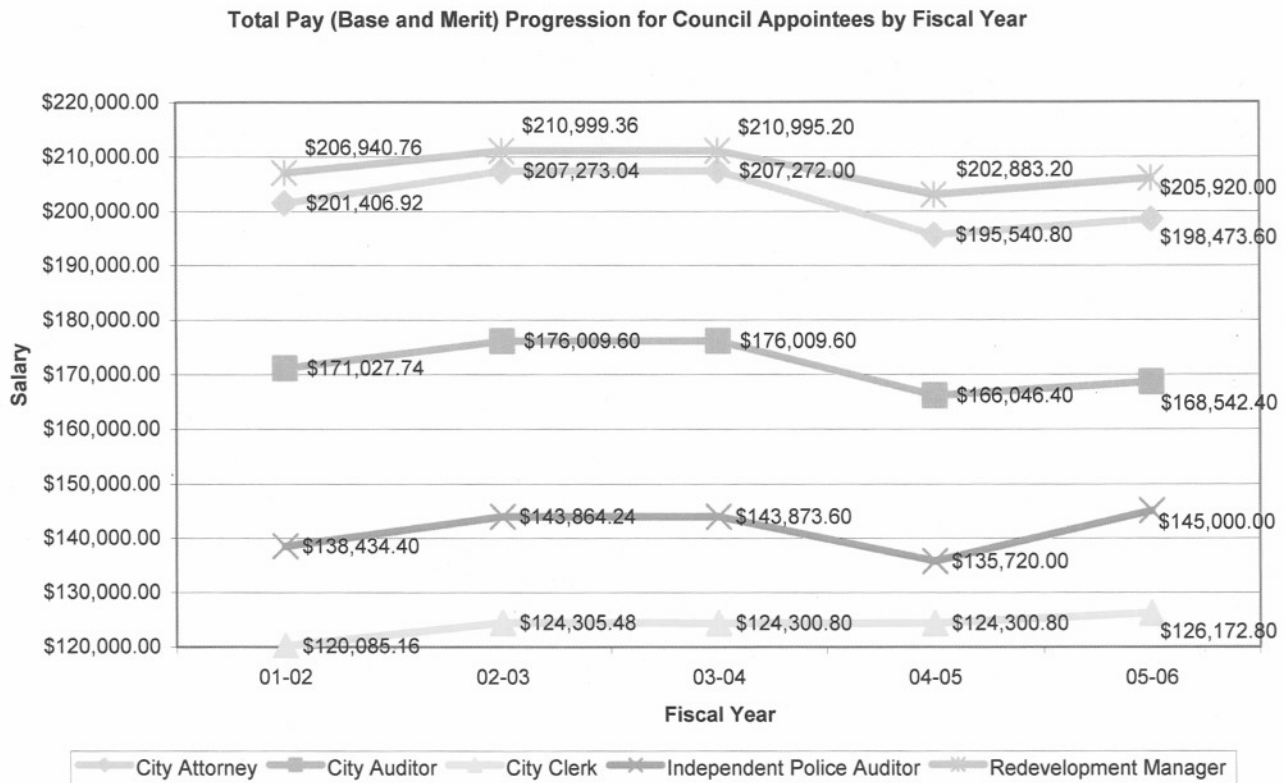
Fiscal Year 04-05: No base or merit increases were provided to Council Appointees. However, the Mayor indicated in his report to the City Council that, had there been salary adjustments, the average Council Appointee salary adjustment would have been about 7.7%.

Fiscal Year 05-06: In June 2005 the Appointees, with the exception of the Independent Police Auditor, who was recently appointed, received a 1.5% increase consistent with the base salary increase provided to Senior and Executive staff.

Utilizing the survey information of November 2005, the Mayor and Vice Mayor recommended that Appointees whose current salary was not at or above the geographically adjusted survey average would receive a base salary adjustment. Adjustments to salaries that were currently at or above the survey average were recommended to receive a one-time merit pay distributed throughout FY 05-06. The recommendation was not adopted and this memo responds to the questions asked by the City Council at its February 7, 2006 meeting.

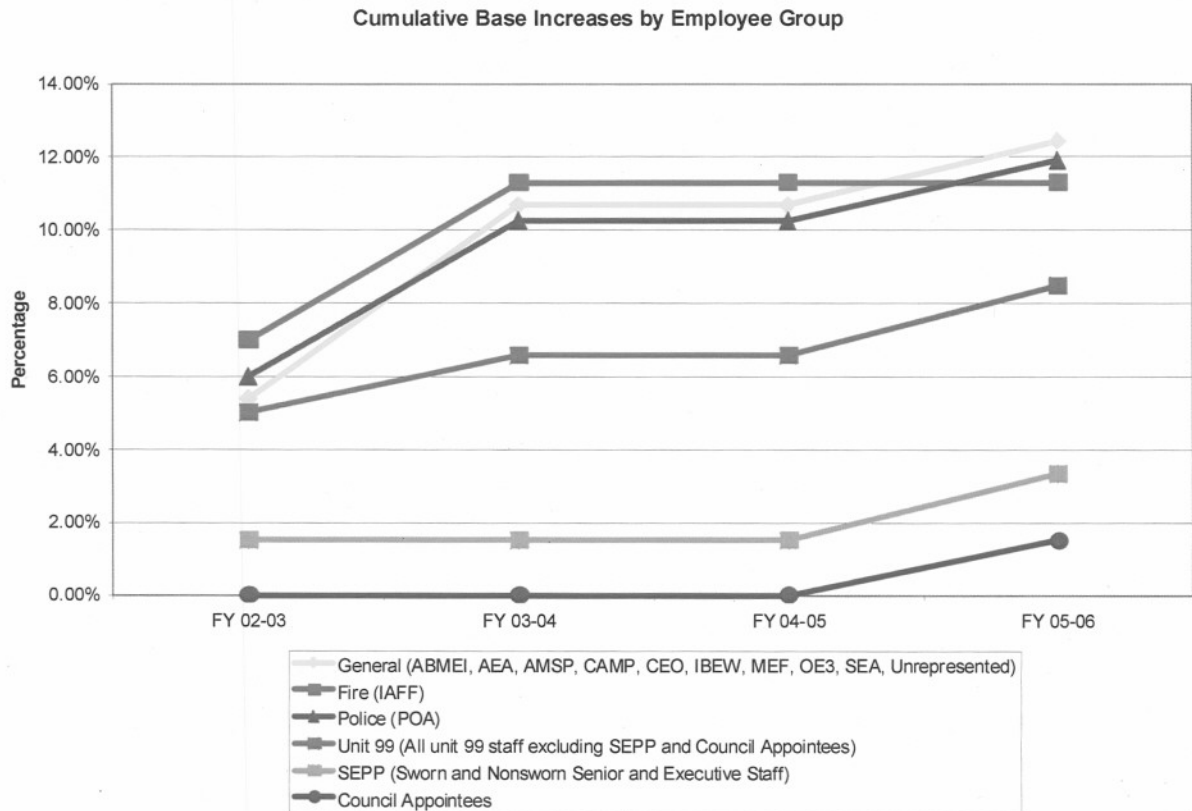
## ANALYSIS

The purpose of this section is to demonstrate the pay progression for Council Appointees and to provide comparative data related to other employee groups.



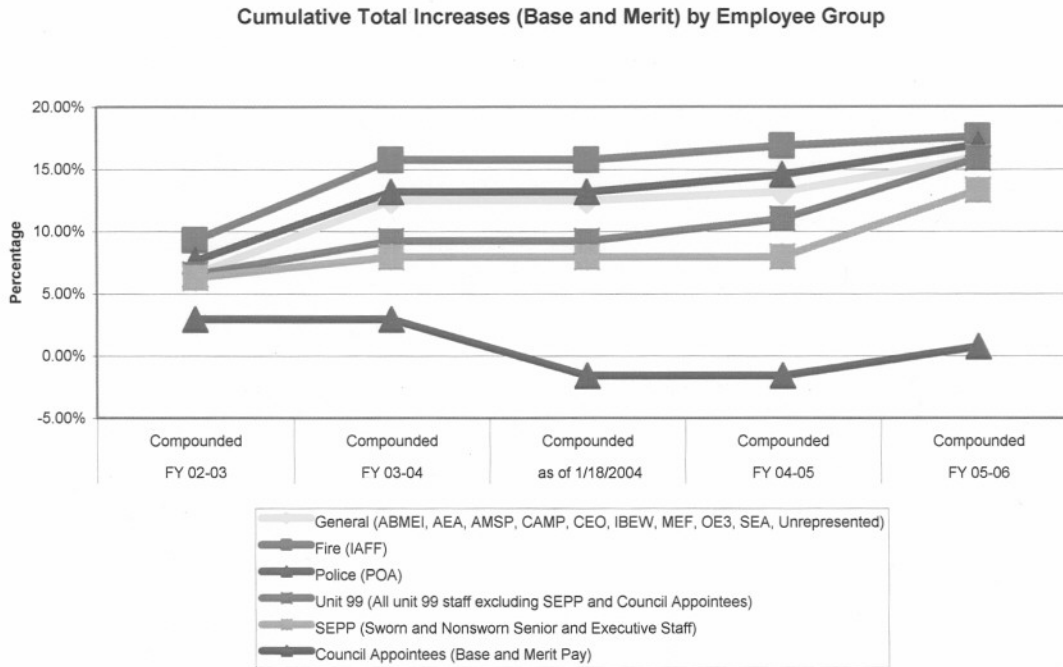
The above graph demonstrates the pay progression for Council Appointees from July 1, 2001 to the present date. Because Appointees do not have a salary range within which merit based movement can occur, the actual current base pay of most incumbents is currently lower than it was on July 1, 2001. The salaries for City Clerk and Independent Police Auditor increased when new individuals were hired into the positions. Also included in the time frame below is the 1.5% salary increase to the Appointees that was also provided to Senior and Executive staff in July 2005.

The following graph demonstrates negotiated increases for represented bargaining units and base increases for unrepresented staff.



Note: The City is in negotiations with the Fire Union.

The following chart shows the average salary movement that combines base increases and step or merit increases. As previously discussed, all employees except Council appointees are in classifications that either have steps or broad ranges.



### **COUNCIL APPOINTEE SALARY ADJUSTMENT OPTIONS**

***Option A – Provide a 2.0% Consumer Price Index (CPI) Base Increase utilizing the CPI All Urban Consumers for the San Francisco-Oakland-San Jose area for the annual period ending December 31, 2005 (index change from 199.5-203.4)***

The following table demonstrates utilizing a CPI base increase for the Council Appointees. Since the Appointees (other than the IPA) received 1.5% in July 2005, the illustration below increases the current salaries of the incumbents by 0.5% for a total increase equivalent to 2.0%.

Council Appointee	Base Pay FY 04/05	Add CPI inc. of 0.5% to Base	Total New Base Salary 05/06
City Attorney	\$198,473	\$992	\$199,465
City Auditor	\$168,542	\$842	\$169,384
City Clerk	\$126,172	\$630	\$126,802
Independent Police Auditor	\$145,000	\$725	\$145,725
Redevelopment Manager	\$205,920	\$1,029	\$206,949
<b>Total Cost</b>		<b>\$4,218</b>	

The Council requested to consider how an increase based on the Consumer Price Index (CPI) or some other index might be utilized. Typically, an index is not the only consideration for individuals in management and/or executive management. The use of an index by itself does not provide consideration for the performance of the incumbents and may have consequences on internal equity. For example, while most City employees received step or merit pay increases, an index may not keep the appropriate pay differentials between Council Appointees and the staff that they supervise thereby creating compression between the supervisor and subordinates.

**Option B – Provide Base Increase consistent with the range movement adopted for Senior/Executive Staff**

The following option would increase base salaries at the same rate that salary ranges were increased for Senior and Executive staff (4.8%). Since the Appointees (other than the IPA) received 1.5% in June 2005, the current salaries of the incumbents would increase by 3.3% in order to reach the 4.8% target.

Council Appointee	Base Pay FY 05/06 <sup>1</sup>	Merit Pay 05/06	Add 3.3% to Base <sup>2</sup>	Total % Salary Increase 05/06	Total Base Salary 05/06
City Attorney	\$198,473	0	\$6,549	4.8%	\$205,023
City Auditor	\$168,542	0	\$5,561	4.8%	\$174,104
City Clerk	\$126,172	0	\$4,163	4.8%	\$130,336
Independent Police Auditor	\$145,000	0	\$4,785	3.3%	\$149,785
Redevelopment Manager	\$205,920	0	\$6,795	4.8%	\$212,715
<b>Total</b>			<b>\$27,853</b>		

<sup>1</sup>Includes 1.5% effective 7/1/05 – except Independent Police Auditor.

<sup>2</sup>Reduce Professional Development Plan \$'s from \$1400 to \$1000 consistent with Senior/Executive Staff Reduction – value equivalent to 0.3%.



**Option C – Provide Base Increase to base salaries consistent with the salary range movement adopted for Senior/Executive Staff and provide additional, one-time merit pay using recently conducted performance evaluation ratings.**

The following option would increase base salaries at the same rate that salary ranges were increased for Senior and Executive staff (4.8%) and, provide merit pay (either one-time or added to base salary) consistent with the respective Appointee performance ratings.

Council Appointee	Base Pay FY 05/06 <sup>1</sup>	Add 3.3% to Base <sup>2</sup>	Total Base Salary 05/06 4.8%	Add remaining one-time bonus 05/06 Council Recommendation less 4.8% <sup>3</sup>	Add remaining one-time merit pay 05/06 – calculated on new base	Total compensation 05/06
City Attorney	\$198,473	\$6,549	\$205,023	8.0%-4.8%=3.2%	\$6,560	\$211,583
City Auditor	\$168,542	\$5,561	\$174,104	9.0%-4.8%=4.2%	\$7,312	\$181,416
City Clerk	\$126,172	\$4,163	\$130,336	9.0%-4.8%=4.2%	\$5,474	\$135,810
Independent Police Auditor	\$145,000	\$4,785	\$149,785	7.0%-3.3%=3.7%	\$5,542	\$155,327
Redevelopment Manager	\$205,920	\$6,795	\$212,715	8.5%-4.8%=3.7%	\$7,870	\$220,585
		<b>\$27,853</b>			<b>\$32,758</b>	
<b>Total Base and Merit</b>	<b>\$60,611</b>					

<sup>1</sup>Includes 1.5% effective 7/1/05 – except Independent Police Auditor.

<sup>2</sup>Reduce Professional Development Plan \$'s from \$1400 to \$1000 consistent with Senior/Executive Staff Reduction – value equivalent to 0.3%.

<sup>3</sup> Includes 1.5% effective 7/1/05 and 3.3%.

This option C is preferred as it offers overall organizational equity.

**BEST PRACTICES**

In reviewing the best practices of various large city and county agencies throughout the United States, we found the following consistencies among most agencies:

- Established salary ranges for their appointed officials and increases are part of base pay for purposes of retirement;
- Employ merit standards for determination of the amount of increase an individual is eligible to receive;
- Had an established group of survey comparables and surveys were conducted periodically (some annual, some every two years, some periodically as needed);



- Systems are designed to reward and recognize differences in individual job performance by employees
- Had standardized methods and procedures for establishing and applying rates of pay
- Had a methodology for consistency within and between various departments

The following should be considered when establishing best practices for compensation plans:

- Legal compliance with all appropriate laws and regulations
- Cost effectiveness for the organization
- Internal, external, and individual equity for employees
  - Internal equity is a fairness criterion that involves setting pay rates for jobs that correspond to the relative internal value of each job. Internal equity refers to the value of the work performed on a job to the employer. Internal equity is unrelated to external equity.
  - External equity demands that an employer pay a rate that corresponds to rates prevailing in external markets for the employee's occupation.
  - Individual equity refers to the payment of wages or salaries based on variation in individual merit. Merit factors include job performance, tenure or experience, and skills or competencies.
- Performance enhancement for the organization
- Balance compensations costs at a level that both ensures organizational competitiveness and rewards employees sufficiently for their knowledge, skills, abilities, and performance accomplishments.

### **OUTCOME**

Should the City Council recommend staff implement one of the three options presented above, the Council Appointees will receive salary adjustments consistent with the pay philosophy that is adopted by Council. Employee Services will develop merit-based compensation plans and salary ranges as directed.

### **PUBLIC OUTREACH**

Not applicable.

### **COORDINATION**

This item was discussed with the Council Appointee's, the Mayor's office, and the City Labor Alliance.

### **COST IMPLICATIONS**

The remaining base salary increase cost for of adoption of Option A for the current incumbents is approximately \$4,218.

The remaining base salary increase cost for adoption of Option B for the current incumbents is approximately \$27, 853.

The remaining base salary increase and one-time bonus cost for the adoption of Option C for the current incumbents is approximately \$60,611.

### **CEQA**

Not a project.



MARK DANAJ  
Director, Employee Services

## Questions and Answers

**Question:** What guidelines did the City Manager use for merit increases for Senior Staff in FY 05-06?

**Response:** *The guidelines established by the City Manager included an increase of 5% for outstanding performance; 2.5% for commendable performance; and 0% for satisfactory performance or improvement needed. The City Manager also made additional adjustments for internal equity.*

**Question:** How did the pay increases for Senior Staff differ from the recent recommendation for pay increases for Council Appointee's?

**Response:** *Senior staff classifications have a salary range where increases may occur with a set salary range. Council Appointee salaries are set at a flat rate. Senior Staff who have not reached the top of their salary range are eligible for merit based annual increases within the salary range established. Based on the evaluations conducted by the City Council a percentage increase was recommended for each Council Appointee. Appointees whose current salary was not at or above the geographically adjusted survey average from the survey conducted were recommended to receive a base salary adjustment to take their salary to that level and any remaining percentage to be received as a one-time merit increase to be distributed throughout the remainder of FY 05-06. Adjustments for Appointees whose salaries were currently at or above the survey average were instead recommended to receive a one-time merit pay to be distributed throughout the remainder of FY 05-06.*

**Question:** Who is in Unit 99 and what salary increases have they received in FY 05-06?

**Response:** *Unit 99 is comprised of a variety of groups. The following indicates the base increase and the average increase for individuals receiving increases in each of these groups.*

	Base increase	Average merit increase	Total
Council Appointees	1.5%	0.00%	1.50%
Council Staff	1.8%	4.81%	6.61%
Other 99	1.8%	4.03%	4.83%
Senior Staff	1.8%	5.45%	7.25%
Executive Staff	1.8%	4.72%	6.52%

**Question:** What salary increases received by other units for FY 05-06?

**Response:** *The following indicates the base increases and the average increases for individuals receiving increases in each of these groups.*

	<i>Base increase</i>	<i>Average merit increase</i>	<i>Total</i>
<i>ABMEI</i>	1.50%	4.23%	5.83%
<i>AEA</i>	1.50%	3.31%	4.81%
<i>AMSP</i>	1.90%	2.88%	4.78%
<i>CAMP</i>	1.80%	3.49%	5.29%
<i>CEO</i>	1.75%	4.68%	6.43%
<i>FIRE</i>	0.00%*	4.40%	4.40%
<i>IBEW (March 12, 2006)</i>	1.50%	4.77%	6.27%
<i>MEF</i>	1.50%	4.75%	6.25%
<i>OE3</i>	1.50%	4.70%	6.20%
<i>POLICE</i>	1.50%	4.33%	5.08%
<i>SEA</i>	1.50%	3.58%	5.08%

*\*The City is still in negotiations with Fire*